DOW THEORY LETTERS INC.

RICHARD RUSSELL
P.O. Box 1759
La Jolla, Calif. 92037

36 Letters per Year – $75 Annually

Registered with the Securities Exchange Commission

November 30, 1973 Letter 582

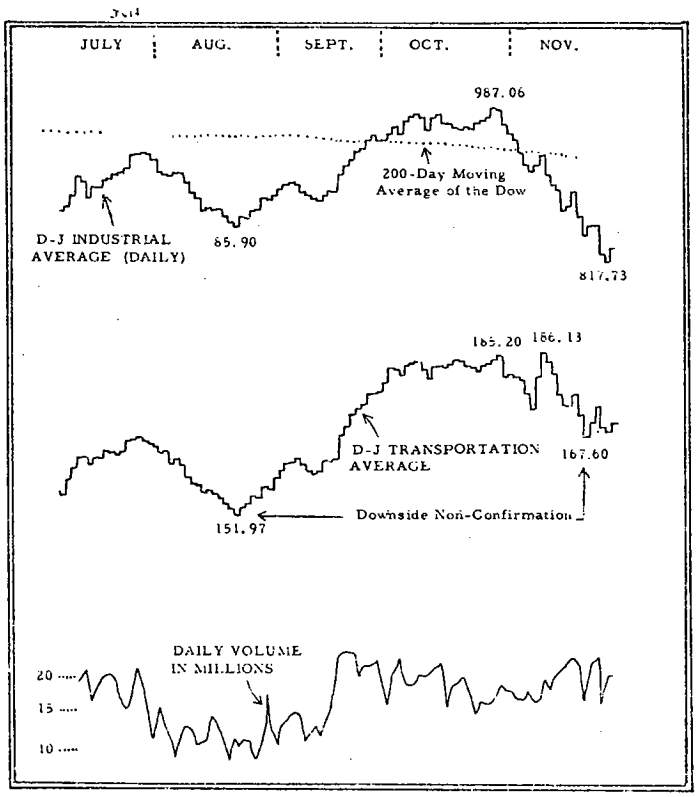
Nov. 16, DJIA 891.33; PTI 689; A-D ratio -16.53
Nov. 23, DJIA 854.00; PTI 675; A-D ratio -17.74

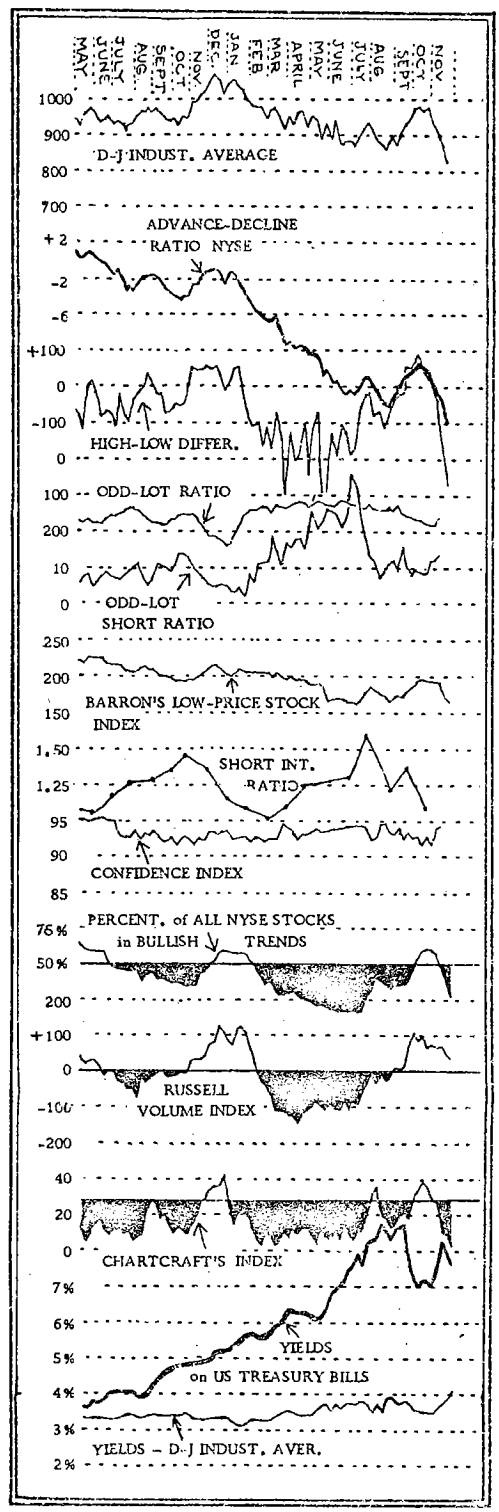
THE PICTURE: Veteran subscribers to these reports have been forewarned about primary bear markets. The primary trend, like the tide of the ocean, must ultimately express itself. Children build sand castles against the tide and grown men often build stone walls. But in the end the tide conquers all, and the longer the tide is held back, the more ruthlessly it reveals itself and the greater the damage to all who stand in its way.

The market smash has been one of the most vicious in the annals of Wall Street. Of the seven worst daily drops in terms of points lost in the Dow, two have appeared in November, 1973, (the 24.24 point decline of Nov. 9, and the 29.05 decline of Nov. 26). For historians, the 38.33 Dow decline of October 28, 1929, still stands as the point milestone against which all crash days are measured.

Once or perhaps two or three times in an adult lifetime there occurs a panic on Wall Street so severe that our ordinary measurements simply lose their validity. That is the sort of decline we have been witnessing since October 26. I will not review all the statistics for the decline at this time, but it is certain that they will take their rightful place in the record books. The breadth has been an utter catastrophe. In terms of "relentlessness," the Dow has broken a record in that it has dropped from the October peak of 987 to 817 (a loss of 170 points) without so much as an intervening three-day rally! True, this record was surpassed in terms of percentages (not points) in 1929, when the Dow dropped from 352 to 198 with only one two-day rally and a few one-day bounces.

To me, the astounding thing about the decline is the stubborn refusal of the majority of investment advisors and managers to turn bearish. How do I know this? I

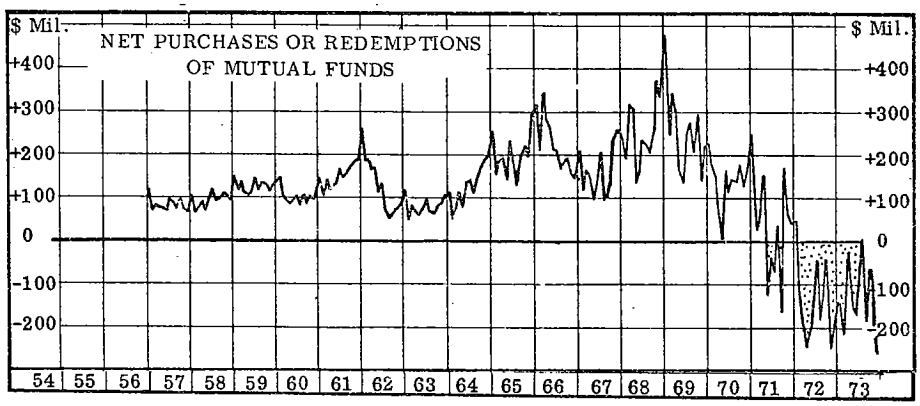




know about the advisors because I read dozens of their reports every week, and most of them have been talking about "oversold," "bottom" and "buy area" for weeks. I know about the managers because there has been no real liquidating volume (at least so far) during this crash. Obviously, the "big guns" have been caught horribly on this decline; their assets have been decimated. But if they were really scared (people who are scared sell), we would see volume, lots of volume, volume of 30 and 40 million shares or more in a single day. The volume is not there, which means that the managers have been sitting on their hands while their stocks have been sinking out of sight on the downside.

There will be trouble. One place where I predict trouble is going to appear is in the pension funds. In many cases these funds have not been properly funded, and in many, many cases stocks have been purchased which do not provide adequate return for pension fund purposes (and these stocks have declined as well!). As I have said before, it is one thing for a mutual fund to decline drastically, since funds are speculations, and anyone who thinks differently is kidding himself. But pension funds represent money which men have worked for and which is owed to them. I have been doing some research and have come up with the following. In early 1966, just as the great 1949-66 bull market was about to end, the pension funds had about 42% of their total $59 billion assets in common stock. But by the beginning of 1973 pension funds had increased the common stock percentage to 63% (out of a total $117 billion). In other words, the pensions have been loading up on common stock all during the bear market (when they should have been unloading). The full story of the pension funds is not completed yet. I believe it is fated to be a "beaut."

Basically, this primary bear market is doing what bear markets are supposed to do, correct the excesses of the preceding bull market. In doing so, it is (as bear markets always do) driving investors and speculators out with losses. Thus the market is fulfilling the old adage which states: "In the end, stocks always come back to Wall Street." A few statistics here should prove most interesting. A late Harris poll shows that 21% of American families own stocks today, compared with 30% in 1970. Last year 17% of families surveyed said they would buy stocks "in the next six months." Today, only 8% expect to.



The public was told that the "Funds" would be the way to play the market. It hasn't worked out that way. The Lipper list of 331 Growth Funds is now down 26% for 1973. Another study shows that professionally managed Growth Funds as a group are down 7% over the last four years. The statistics for October show that Mutual Fund redemptions exceeded purchases by a whopping (I believe it is a record) $254 million. Thus the flight from funds which began in 1971 is continuing with greater ferocity than ever, and I show on this page a flow-to-the-Funds chart which I have updated (chart courtesy of Growth Fund Guide, PO Box 2109, San Clemente, CA 92672).

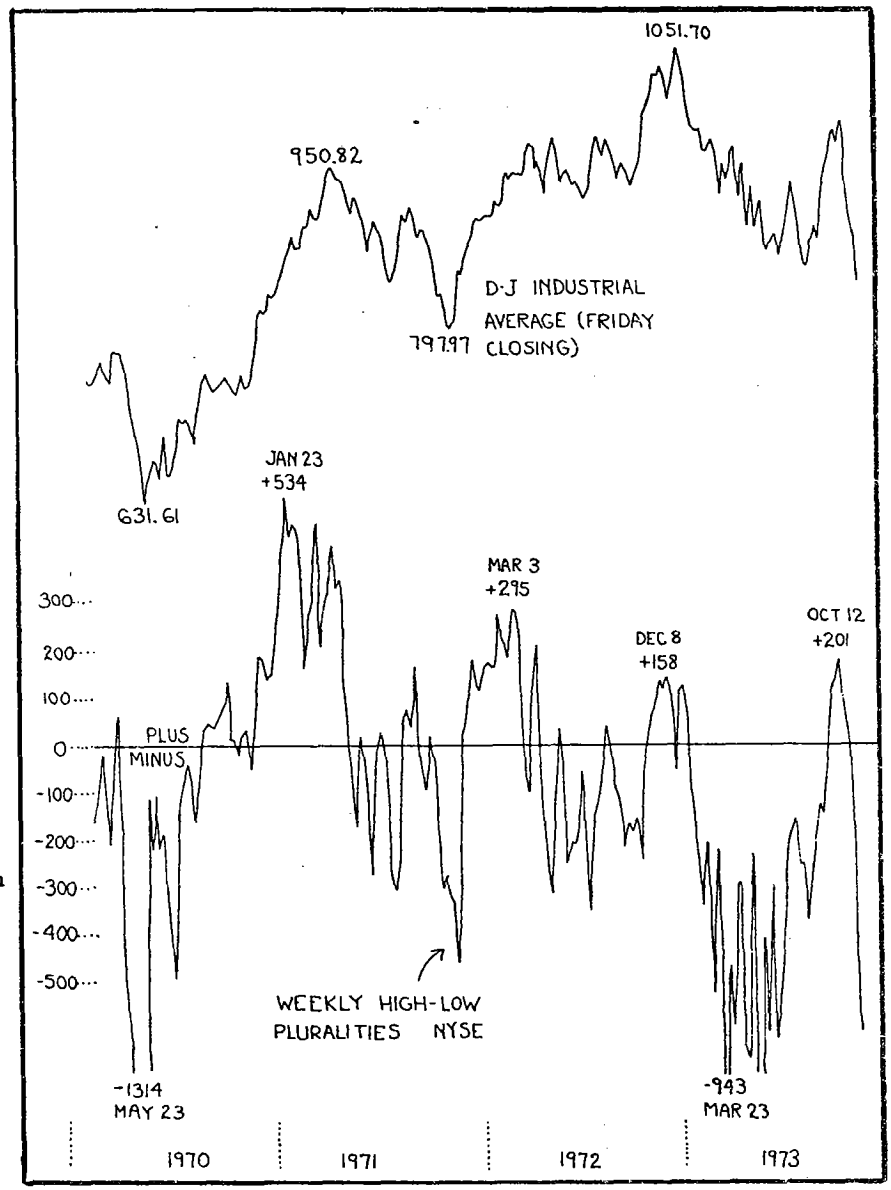
The fact is that during a primary bear market there is a massive move towards the exits, and if the exit doors prove too small on occasion, we get a panic as the orders pile up. Every evening when the sun goes down, all the stock certificates in the nation are owned by people, and each day that the market closes lower, the share owners (whether new or old) feel poorer. This is the sort of thing which turns sentiment gray, then black, during a primary bear market. Finally, at or near the bottom, only the bravest, the most solvent and the most informed are willing to hold stocks. That is the position I would like all my subscribers to be in when this bear market breathes its last. Thus we will be able to perform a useful, even a patriotic function; namely, buying shares in America when very few people either want them or can afford them.

50% Principle: On November 26 the Dow "gapped" down, sold lower all day, and closed at 824.95. This meant that the Dow closed below the halfway or 50% level of the entire rise from the 1970 low of 631.16 to the 1973 all-time high of 1051.70 (the halfway level was 840.93). I always watch what the Dow does during corrections of major advances or declines. Generally if, during the correction of a major advance, the Dow can hold half or more of its preceding gains, the situation remains long-term bullish, and it is reasonable to assume that in time the highs will be approached or bettered.

Conversely, if the correction breaks below the halfway level of the preceding major advance, there is a strong possibility that the lows (from which the advance started) will be approached or violated. Under my interpretation, then, the odds now favor (following the November 26 breaking of the 50% level) an ultimate "testing" of the 1970 low of 631.16.

Note on the page 1 chart of the D-J Averages that there now exists a downside non-confirmation. Industrials have plunged far below their August 22 low of 851.90, while Transports have persistently refused to even approach their own August low of 151.97. The "explanation" is that the rails are the new "cheap form of transportation," and that the rail industry has a new lease on life. Be that as it may, from the Dow Theory standpoint the non-confirmation does present the technical setting for a technical rally. So far, all rallies have been completed in the first hour of trading with prices sagging through the rest of the day. But it is well to remember that every bear market in history has produced upside corrections. This bear market will prove no exception.

WEEKLY HIGH-LOWS: Some of the most basic market indices also prove to be the most useful. Analysts use the high-low figures in a variety of ways. For instance, my overworked buddy Harry Schultz simply refers to the raw figures, and he might, for instance, state that if daily lows for this bottom exceed the daily lows for a preceding bottom, then run for the hills. Other analysts use a ratio of highs and lows. As far as Dow Theory Letters is concerned, I have presented the high-lows in two forms: (1) the daily pluralities of highs over lows (or vice versa) on a five-day moving average, (2) the weekly pluralities of highs over lows (or vice versa) on a weekly basis.



I would say that in my experience the weekly pluralities have been the most useful to me, when interpreted as follows: Declining tops in the H-L weeklies against new highs in the Dow is long-term bearish. Rising H-L peaks (regardless of what the Dow does) should be taken as bullish. On the downside, a series of lower lows on the H-L index is usually a bearish indication, but if the negative H-L figures expand beyond minus 1200, then watch out — this is climactic, and you are at or near an important bottom.

The downside in the H-L figures are usually harder to interpret than the upside. For instance, the minus H-L series can appear "hopeful," then suddenly expand beyond all previous readings. As a rule, once a major decline gathers full momentum, you can expect an ultimate minus 1200. This will indicate that the bottom is near (or that it has arrived).

Now here is a final rule which I have found most helpful. When the market is advancing from an "oversold," if the move is to be a good one, the H-L index should rise above plus 215. If the index (regardless of what the Dow is doing) can't better plus 215, watch out — the advance is probably going to abort.

I have included my weekly high-low chart going back a few years, and it should be instructive to examine the action from the fateful year 1970 — to the present. Note that the 1970 crash produced a minus 1314 plurality on (the week ending) May 29, so that was a major oversold. Stocks should have been bought for at least a trade on May 29, under this system. On January 1, 1971, the H-L pluralities rose to plus 232, which was above the critical plus 215 bull point. This meant that the market was heading higher — which indeed it was. On January 22 the H-L index touched a peak of plus 534 as seen on the chart (this chart last appeared in Letter 571).

From here on, the situation becomes most interesting. We got a plus 295 on the H-L index for March 3, 1972, although the Dow was still in a rising phase. And we saw a sub-standard plus 158 on December 8, 1972. A few weeks later, with the Dow at its all-time high of 1051.70, the index contracted (Jan. 12) to plus 84. The next week, the index turned minus, and the 1973 collapse was on.

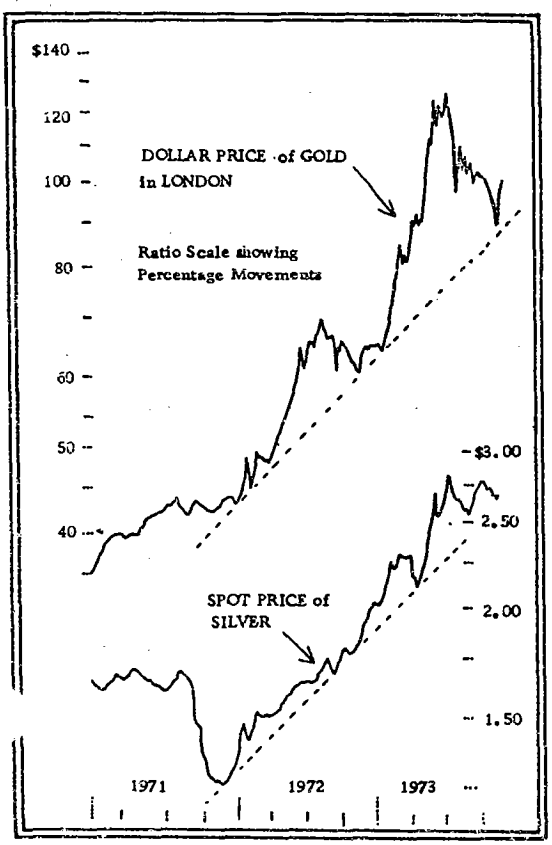
By May 25, 1973, the index was down to a minus 931 with the Dow at 935. This was not the drastic minus 1200 oversold condition which I have alluded to, and the market continued lower. The market halted its downslide during July-August, 1973, but the negative figures had contracted to minus 356 (August 17). At no time during 1973 (under this system) had the minus 1200 (or "fully oversold" situation) prevailed.

Next came the violent (bear market) rally of August-October, and note that on October 12 the H-L index rose to a peak of only 201. This was below the required "buy signal" of 215. Nevertheless the Dow continued to advance, recording a high of 987 on October 26. The week ending October 26 saw the H-L index provide a beautiful "danger signal" (read Letter 579, page 6) with a reading of only plus 52.

Those who wish to place the entire blame for the late-1973 market smash on the Arab oil embargo are free to do so. But this does not explain the declining H-L index of late-1973. The recent readings on the index are as follows: Oct. 12 H-L was at a peak of plus 201. Oct. 19 index down to plus 115 (embargo was not on yet). Oct. 26 index plus 52. Nov. 2 index plus 15. Nov. 9 index minus 148. Nov. 16 index minus 416. Latest index reading, that of Nov. 23 was minus 591. Still a long way from minus 1200, which is the "major, oversold bottom" statistic which has proved so reliable in the past.

So as far as technical analysis is concerned, the weekly H-L plurality index would have kept us out of this smash all by itself. Is there any wonder that we follow it, or that Robert Rhea so often repeated that the market discounts almost everything in advance?

GOLD: The theses I have put forth about money, gold and oil are slowly coming to pass. On November 28 Reuters stated that "a senior gold official" expects the Arabs to demand part-payment in gold for oil. I've been saying all along that this is "what it's all about." When this happens, only sheer insanity will stop the West from boosting the price of gold as high as they can (within the realm of credibility). In time, the Arabs will get their gold deal, Israel (which was the pawn the oil-price raising game), will be thrown a bone — or "sold out," (I can't figure which yet), and forty years of idiocy and arrogance regarding gold will have ended.



On November 8, the London bullion price of gold jumped to $101.50, up almost $9 from the previous day. I had written in the last Letter that the big correction in gold (in Elliot terms) was about over, and that upward leg 5 was about to begin. It has, in my opinion, now begun. In a matter of months, gold bullion should be at all-time highs (above $127). On November 28 ASA (see last Letter) leaped to an all-time high above $56 while Dome careened to above $116 and Campbell climbed to the high $60's. The S. African gold shares all moved out, as gold shares around the world pushed higher.

U.S. Plans to Let Citizens Buy Gold

From Reuters

WASHINGTON—Treasury Secretary George Shultz Monday said the Nixon Administration would allow Americans to buy and sell gold privately for the first time in four decades, but would not say when this would start.

Congress has given President Nixon authority to allow gold ownership by American individuals.

Testifying before the Senate Foreign Relations Committee, Shultz said the "presumption is that this will be done at some appropriate moment."

He said American citizens should have the right to buy and sell gold, which has been prohibited for nearly four decades.

But he added that the United States wanted the timing to be such that it did not disturb the financial markets.

The United States has been playing down the role of gold in the international monetary system.

Consistent with that policy, Shultz pointed out, is the right of private citizens to own, buy and sell gold.

Shultz gave no clues as to when the Adminstration will lift the prohibition on gold ownership by Americans. U.S. citizens can only own gold now if it is for industrial or artistic uses.

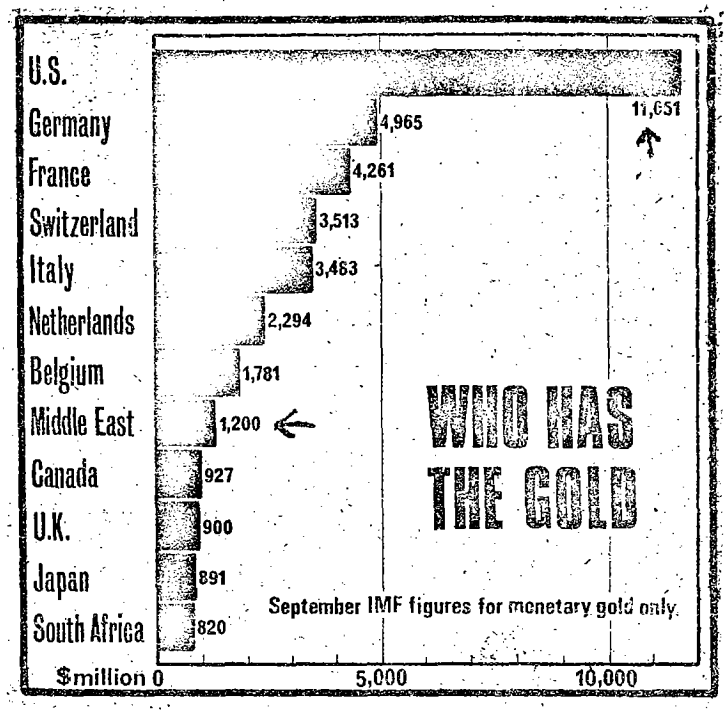
Meanwhile, Treasury Secretary Shultz was telling the Senators that Americans would be allowed to own gold; it was just a matter of when the President felt was the best time to say "go." I thought this rather strange from a man who has tried his best to get rid of gold. Suddenly, gold is a nice metal, it should be legal, and it's every American's right to tuck some under his mattress. Why is Shultz saying this at this time?

Mr. Shultz is also running to Paris to meet with four other leading Finance Ministers, and he is discussing plans for the new monetary world. And here in La Jolla I look at the accompanying chart of "Who Has the Gold," and I think, "Wouldn't it be smart of the US to boost the price of gold up

to around $200. After all, we have the most gold, and WE STAND TO BENEFIT THE MOST! The US has only about $300 million in foreign currency, but we have a big hoard of gold (sure, it's mortgaged, but it's still here). The Arabs have very little gold, but maybe $5 billion in paper reserves. Will Mr. Shultz see the picture? We need oil, they need gold; they raised the price of oil, and ... will we have the brains to raise the price of gold?

So there you are, the thought of the month. Not Europe, not Russia, not Patagonia, but it will be Uncle Sam who will raise the price of gold. It's logical, and by the law of averages I figure the time has come for the US to do something right in the field of economics. Could it be 1973 or 1974? Could it be gold?

Gold Items: The Arabs have announced a total cut-off of oil to S. Africa. Why haven't the S. African golds suffered? Because S. Africa gets about 80% of its electric power from coal, and they're loaded with coal. Also, gold has a strange way of buying oil, even when it "ain't for sale."



Uranium is going to be a big play coming up, and many of the gold miners are big miners of uranium. Homestake is fated to be a leading uranium producer, and this will be seen (in time) as a big "kicker" for HM (which I have recommend for years). Among S. African gold mines with large uranium holdings are Hartebeest, Vaal Reefs, West Driefontein, Welkon, President Brand, Western Deep Levels.

Outside of S. Africa, there is only Homestake and the Canadian mines. In Canada we have Campbell Red Lake and Sigma (you can buy both, but they are also controlled by Dome), Camflo (which I have recommended and which has applied for Amex listing), and Giant Yellow Knife (which is a short-lived mine). Then there are lots of little speculations, many of them not bad, but they have to be researched.

NOTES & THOUGHTS: I have been doing a good deal of additonal thinking regarding the Fibonacci timing series as discussed in detail in the last Letter. In that report, I stated that 1975 could be the year of the bear market's end. The following relationships, however, strike me as worth noting. From the bull market top of 1966, a span of 8 years (8 is a Fibonacci number) would take us to 1974. From the May, 1970, bear market low (and the outstanding significance of the year 1970 was explained in the last Letter) to December, 1974, would be 55 months. The number 55 is also a Fibonacci series. Thus I feel that December, 1974, will be a month well worth watching, as far as Elliot is concerned. Conceivably, the bear market could end there.

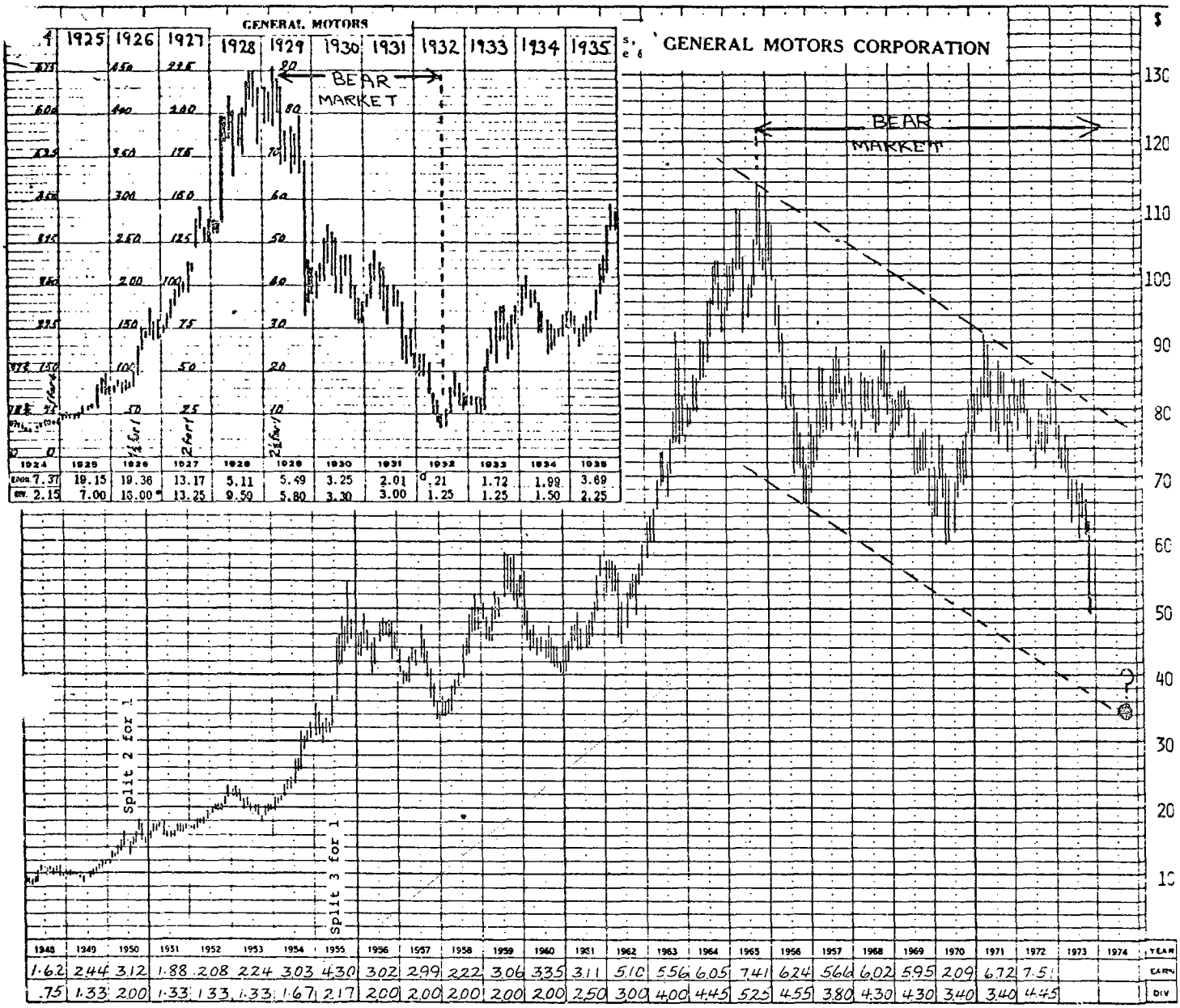
Correction: There was a "failure to communicate" between my secretaries and me, leading to an error in the announcement for the Dines Monetary Seminar (see last report). Price will be $600 for the three days, but only $300 extra if you bring your wife. Check payable to Dines, 18 E. 41st St., NYC 10017.

Inflation: One enterprising subscriber has made a list of US Senators in terms of spending proclivities. From the top here is how it runs (1) Dubious honor of being the biggest potential spender goes to John Pastore (D-RI). In only 6 months Pastore has proposed new legislation which, if passed, would cost the US $109.3 billion per year! (2) Second is Hubert Humphrey (D-Minn. with spendings of $109.2 for a year. (3) Philip Hart (D-Mich.),(4) Edward Muskie (D-Maine), and so forth down to number 11, Edward Kennedy with a piddling spending goal of $83.7 billion.

ALLIED CHEMICAL: I can't find any other spot to say this, and I haven't got room for my chart, but Allied Chemical deserves mention. It looks absolutely outstanding, the strongest stock in the Dow. Relative strength going through the roof. I know it has an oil play, and it also has a uranium play. But there must be something else going on with Allied; it is technically, in a class by itself, and I consider it the outstanding speculation for those who want to play an upside correction of this smash.

Axe-Houghton Stock Fund Inc. shows that 9.4% of their $71 million fund is now invested in gold. My guess is that this will gradually (perhaps not so gradually) develop into a trend. If so, it might be well to remember that there are only 16.3 million

shares (total) of the four listed golds (ASA, CRK, HM, DM) on the NYSE. There are around 25 million stockholders in the US. Now if each of them wanted say 2 shares of a listed gold, well...



© M. C. HORSEY & COMPANY, Publishers, 120 South Blvd., SALISBURY, MD. 21801

GM and the AUTOS: Over the past few years I have periodically run a very long-term relative strength chart of the Auto Group, and I noted that this chart portrayed a total breakdown in relative strength (it is now down to the 1944 level). I have urged investors to get out of all Auto shares. I opined that the market was saying that the Auto business was going into fantastically difficult times. The Auto stocks have subsequently collapsed.

The Auto industry employs 900,000 persons in the US in Auto assembly and parts manufacturing. But this is the tip of the iceberg. Every job in Autos generates 16 other jobs in allied industries. To put it another way, one out of every six jobs in this nation is auto-connected.

iew of these staggering figures, I thought the above chart was well worth pondering (small chart by Stephens). Note that the ... vements since the 1965 high on GM are extraordinarily similar to the 1928-31 action in GM. My own bet is that before this primary bear market is over, GM will drop to (or perhaps below) the lower trendline which I have drawn. That trendline is currently in the 35 area.

It is of interest that GM, the world's largest manufacturer, is now at an eleven year low. The market is protecting itself against events that it sees ahead. Those events will not help the Auto industry, I am convinced of that.